

**Clinton County  
Regional Educational Service Agency  
St. Johns, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2006**

Clinton County Regional Educational Service Agency

St. Johns, Michigan

BOARD OF EDUCATION

June 30, 2006

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Clinton County Regional Educational Service Agency

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Clinton County Regional Educational Service Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006 on our consideration of Clinton County Regional Educational Service Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clinton County Regional Educational Service Agency's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 4, 2006

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This section of the Clinton County Regional Education Service Agency's annual financial report presents management's discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2006.

**USING THIS ANNUAL REPORT**

The annual report consists of three main parts:

1) *Management's Discussion and Analysis*

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June, 1999. The Management's Discussion and Analysis explains what is contained in the audited financial statements, presents the financial position and results of operations, provides an analysis of balances and transactions of individual funds, analyzes the budget, breaks down the various categories of capital assets/debt and outlines any known factors affecting the Agency's future.

2) *Basic financial statements*

The basic financial statements include two kinds of statements that present different views of the Agency.

- The Statement of Net Assets and Statement of Activities

The District-wide statements report information about the Agency as a whole and are reported as governmental activities.

The two District-wide statements report the Agency's net assets and how they have changed. Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Agency consideration of non-financial factors, such as changes in the property tax base, physical condition of school buildings and political conditions at the state level should also be taken into account.

Business-type activities as interpreted by the Michigan Department of Education do not occur in this Agency.

The District-wide financial statements can be found on pages 1 and 2 of this report, with reconciliations to the fund level financial statements presented on pages 5 and 8.

- Fund Financial Statements

The fund financial statements provide more detailed information about the Agency's major funds - not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending for a particular purpose. Some funds are required by State law and others the Agency's Board of Education establishes to control and manage money for particular purposes.

*Governmental Funds*

The Agency's basic services are included in governmental funds, which focus on how money flows in and out and the balances left at year-end that are available for spending.

**MAJOR FUNDS** for purpose of these statements are the:

- General Fund
- Special Education Fund
- Vocational Education Fund

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

All other funds are presented in one combined column as **NONMAJOR GOVERNMENTAL FUNDS**. These would be:

- Debt Service Fund
- Capital Projects Fund

The fund financial statements are on pages 3-4 and 6-7.

*Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the Agency. Fiduciary funds are not reflected in the District-wide financial statements because the resources of those funds are not available to support the Agency's own programs. Fiduciary fund information is reported on pages 9-10.

The financial statements also include notes, beginning on page 11, explaining some of the information in the statements as well as providing more detailed data.

3) *Required Supplementary Information*

The financial statements are followed by a section of required supplementary information that further explains and supports the financial statements by providing a comparison of the Agency's budgets for the major funds for the year. These are located on pages 25 through 27.

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

*Net Assets*

The Statement of Net Assets provides a perspective of the Agency as a whole and may serve over time as a useful indicator of a district's financial position. In Figure A-1, a comparative analysis of fiscal year 2006 is made to fiscal year 2005.

Figure A-1  
Condensed Statement of Net Assets  
As of June 30, 2006 and 2005

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current and other assets	\$ 6,133,848	\$ 6,215,917
Capital Assets	7,124,733	7,194,443
<b>Total Assets</b>	<b>13,258,581</b>	<b>13,410,360</b>
<b>Liabilities</b>		
Current Liabilities	2,182,508	2,179,437
Long-Term Liabilities	3,065,858	3,525,219
<b>Total Liabilities</b>	<b>5,248,366</b>	<b>5,704,656</b>
<b>Net Assets</b>		
Invested in capital assets	3,746,657	3,651,125
Unrestricted	4,263,558	4,155,281
<b>Total Net Assets</b>	<b>\$ 8,010,215</b>	<b>\$ 7,806,406</b>

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The Agency is able to report positive balances in all categories of net assets. The \$4.26 million in unrestricted net assets represents the accumulated results of all past years' operations. It means that if all bills were paid off today, including all noncurrent liabilities (compensated absences, for example), there would be \$4.26 million remaining. The operating results of the Agency will have a significant impact on the change in unrestricted net assets from year to year.

Changes in Net Assets

Similar to the Statement of Net Assets, the Statement of Activities reports on the Agency as a whole. A summary of the District-wide results of operations for the year ended June 30, 2006 is found in Figure A-2, Changes in Net Assets from Operations, along with a comparison to year ended June 30, 2005.

The cost of the Agency's governmental activities this year was \$16.26 million. Certain activities were partially funded by those who benefited from the programs (\$1.56 million in charges for services) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5.87 million in operating grants). The remaining portion of the governmental activities was paid with \$5.9 million in taxes, \$2.75 million in State Aid, and \$.36 million of other revenues, such as interest and general entitlements.

The Agency experienced an increase in net assets of \$.20 million in the current year. Key reasons for the change in net assets were due to the conservative approach the Agency took on spending because of the economic condition in the State and the nation, and the fact that capital expenditures, which were previously expensed, are now capitalized in the District-wide statements.

Figure A-2  
Change in Net Assets from Operations  
Years Ended June 30, 2006 and 2005

	Governmental Activities	
	2006	2005
<b>Revenues</b>		
Program Revenues		
Charges for Service	\$ 1,560,884	\$ 1,808,500
Operating Grants	5,886,196	6,272,873
General Revenues		
Property Taxes	5,900,907	5,195,742
State School Aid-unrestricted	2,750,560	2,549,663
Other	369,352	235,030
<b>Total Revenues</b>	<b>16,467,899</b>	<b>16,061,808</b>
<b>Functions/Program Expenses</b>		
Instruction	3,205,711	2,733,682
Supporting services	9,495,862	9,780,168
Payments to other districts	3,164,167	2,907,954
Interest on long-term debt	174,030	186,994
Unallocated depreciation	224,320	221,899
<b>Total Expenses</b>	<b>16,264,090</b>	<b>15,830,697</b>
<b>Increase in Net Assets</b>	<b>\$ 203,809</b>	<b>\$ 231,111</b>



Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

In Figure A-3, we have presented the cost of four of the Agency's largest functions and depreciation as well as each function's net cost (total cost less revenues generated by the activities). Net cost shows the financial burden that was placed on the Agency's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Figure A-3  
Net Cost of Governmental Activities  
Years Ended June 30, 2006 and 2005

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Governmental Activities				
Instruction	\$ 3,205,711	\$ 2,733,682	\$ 1,632,710	\$ 925,122
Support services	9,495,862	9,780,168	3,621,783	3,507,355
Payments to other districts	3,164,167	2,907,954	3,164,167	2,907,954
Interest on long-term debt	174,030	186,994	174,030	186,994
Unallocated Depreciation	224,320	221,899	224,320	221,899
<b>Total Governmental Activities</b>	<b>\$16,264,090</b>	<b>\$15,830,697</b>	<b>\$ 8,817,010</b>	<b>\$ 7,749,324</b>

**BALANCES & TRANSACTIONS OF INDIVIDUAL FUNDS**

As the Agency completed the year, its governmental funds (as presented in the balance sheet on pages 3 and 4), reported a *combined* fund balance of \$4,475,849, which is more than last year's total of \$4,357,235.

**BUDGETARY ANALYSIS**

The Agency's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year. State law also requires the budget be amended to ensure expenditures do not exceed appropriations. Schedules showing the Agency's original and final budgets compared with amounts actually received and paid from the General, Special Education and Vocational Education funds are provided in the Required Supplementary Information section of the financial statements on pages 25-27.

Two budget amendments were made throughout the fiscal year to deal with unexpected changes in revenues and expenditures. Revenue budgets are amended to reflect known information such as receipt of additional grant funds. Expenditure budgets rarely are altered, especially in the instructional and pupil support areas. Factors, which affected the final budgets and their relationship to actual activity, are listed below:

- The General Fund overall added to their fund balance:
  1. The negative revenue variance of \$260,117 is a result of two key items. One is in regards to Federal grant funding. The variance for Federal grants was \$85,683. The grant dollars, however, are not lost and typically are carried over to the subsequent fiscal year. The other factor having an impact on the revenue was the change in the accounting procedures for the substitute teacher calling system. This was the third year that LEA sub teacher costs, reimbursed to the Agency, were reflected as revenue. The estimates on these revenues are difficult to project and were less than anticipated by approximately \$156,315.
  2. The expenditures have a positive (under expended) variance of \$377,456. This consists of these major items: instructional staff support services were under budget by \$172,713. This was due to in large part to several grants that were not fully expended as well as the educational services and technical assistance components of the budget. Another under-expended area was basic program instruction by \$133,264. This too was due to LEA sub teacher costs.

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

- The Special Education Fund overall added to their fund balance:
  1. The negative revenue variance of \$91,172 is a result of three key factors. One factor is that local and state revenues were over (positive) the initial budget by \$53,214. This was a result of additional revenues received in the following areas: facility rent, interest earnings, and state categorical dollars. Another factor is that Federal revenues were under budget by \$164,459. The grant dollars, however, are not lost and typically are carried over to the subsequent fiscal year. A third factor was payments from other districts were over (positive) by \$14,793.
  2. Total instruction (\$83,075), support services for instructional staff (\$122,151), and central support services (\$50,905) collectively were under budget by \$256,131. This was due largely to the under-expending of a portion of the Federal grants and optimal utilization of Federal dollars in conjunction with the use of State and local dollars.
- The Vocational Education Fund overall decreased their fund balance:
  1. The expenditures have a positive (under expended) effect of \$39,572. This consists of these two major items. The first is instructional added needs were under budget by \$24,915 due to the fact contracted instruction costs were less than anticipated. The second item is that the instructional staff support services were under budget by \$12,051. This was due to the use of grant dollars to offset these costs.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

At June 30, 2006, as indicated in Figure A-4, the Agency had \$7.12 million invested in a broad range of capital assets, including buildings, furniture and equipment, vehicles, land and construction in progress. The values shown below are net of applicable accumulated depreciation, i.e. net book value at the beginning and end of the year.

Figure A-4  
Capital Assets, Net  
Years Ended June 30, 2006 and 2005

	Balance June 30, 2006	Restated Balance June 30, 2005
Land	\$ 627,860	\$ 627,860
Buildings and additions	5,752,274	5,835,618
Equipment and furniture	722,479	799,660
Vehicles	22,120	32,007
<b>Total Capital Assets</b>	<b>\$ 7,124,733</b>	<b>\$ 7,295,145</b>

Net additions to historical cost for the year were \$53,908, the majority of which were for buildings and additions. Additional information about the Agency's capital assets is contained in the notes to the financial statements on pages 17 and 18.

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Debt

At June 30, 2006, as indicated in Figure A-5, the Agency had \$2,962,191 in outstanding installment loans. The 2001 installment loan was for St. Johns facility and improvements to the Educational Center. The 2003 installment loan was for fiber optic cabling. There is also \$415,885 of Durant Resolution Bonds outstanding at June 30, 2006. The annual payment for the Durant bonds is made by the State of Michigan. According to the legislation enacted, if the State fails to appropriate the money to fund the bond payments, the District is under no obligation for the payment.

The District also has a compensated absence liability accumulated at June 30, 2006 in the amount of \$128,896.

State statutes limit the amount of General Obligation debt that an Agency may issue. The current debt limitation for the Clinton County Regional Education Service Agency is significantly greater than the outstanding debt of the Agency.

Additional information on the Agency's long-term debt can be found in the notes to the financial statements on pages 18 through 20.

Figure A-5  
Outstanding Debt  
Years Ended June 30, 2006 and 2005

	Balance June 30, 2006	Balance June 30, 2005
Durant Resolution Bonds	\$ 415,885	\$ 449,977
2001 Installment Loan	2,770,000	2,980,000
2003 Installment Loan	192,191	214,043
Compensated Absences	128,896	116,419
<b>Total Capital Assets</b>	<b>\$3,506,972</b>	<b>\$3,760,439</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The economy in the State of Michigan continues to be very depressed. After a decrease in 2004/05 of 15.27%, a 0% increase in 2005/06, a 3.1% increase of section 81 funding is anticipated for fiscal year 2006/07. Pupil FTE (full time equated) remains about the same with a projected \$200 foundation increase from the state. The growth in the Agency's taxable value continues to generate less revenue from the state via millage equalization formulas. Reductions and minimal growth in some of the major Federal grants has put more pressure on the use of local and state dollars. In addition the Michigan Public School Employee Retirement System rate on employee earnings will be increasing from 16.37% to 17.74%. Employee health insurance premiums are expected to increase from 12% - 15% and alternative options are being considered. The Agency's one collective bargaining group contract expired on June 30, 2006. Other non-bargaining groups have agreements in place, which will be reviewed again upon settlement with the collective bargaining group. These factors were considered in preparing the 2006/07 budgets.

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**REQUESTS FOR INFORMATION**

This report is designed to give an overview of the financial conditions of the Clinton County Regional Education Service Agency. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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## **BASIC FINANCIAL STATEMENTS**

Clinton County Regional Educational Service Agency

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 4,496,199
Accounts receivable	84,271
Taxes receivable	7,729
Interest receivable	20,664
Due from other governmental units	1,344,982
Inventories	144,731
Prepays	<u>35,272</u>
TOTAL CURRENT ASSETS	6,133,848
Noncurrent assets	
Capital assets not being depreciated	627,860
Capital assets, net of accumulated depreciation	<u>6,496,873</u>
TOTAL NONCURRENT ASSETS	<u>7,124,733</u>
TOTAL ASSETS	13,258,581
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	602,205
Accrued payroll	342,594
Accrued interest payable	83,395
Other accrued liabilities	168,340
Deferred revenue	544,860
Current portion of compensated absences	35,710
Current portion of long-term debt	<u>405,404</u>
TOTAL CURRENT LIABILITIES	2,182,508
Noncurrent liabilities	
Noncurrent portion of compensated absences	93,186
Noncurrent portion of long-term debt	<u>2,972,672</u>
TOTAL NONCURRENT LIABILITIES	<u>3,065,858</u>
TOTAL LIABILITIES	<u>5,248,366</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,746,657
Unrestricted	<u>4,263,558</u>
TOTAL NET ASSETS	<u><u>\$ 8,010,215</u></u>

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenues and
		Services	Grants	Changes in
				Net Assets
				Governmental
				Activities
Governmental Activities				
Instruction	\$ 3,205,711	\$ 1,517,497	\$ 55,504	\$ (1,632,710)
Supporting services	9,495,862	43,387	5,830,692	(3,621,783)
Payments to other districts	3,164,167	-	-	(3,164,167)
Interest on long-term debt	174,030	-	-	(174,030)
Unallocated depreciation	224,320	-	-	(224,320)
Total expenses	<u>\$ 16,264,090</u>	<u>\$ 1,560,884</u>	<u>\$ 5,886,196</u>	(8,817,010)
General revenues				
Property taxes				5,900,907
State school aid - unrestricted				2,750,560
Investment earnings				200,302
Miscellaneous				<u>169,050</u>
Total general revenues				<u>9,020,819</u>
Change in net assets				203,809
Net assets, beginning of year				7,705,704
Prior period adjustment				<u>100,702</u>
Net assets, end of year				<u>\$ 8,010,215</u>

See accompanying notes to financial statements.

## Clinton County Regional Educational Service Agency

## GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Special Education	Vocational Education
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,210,189	\$ 2,930,568	\$ 712
Accounts receivable	18,077	50,792	-
Taxes receivable	404	5,356	1,969
Interest receivable	8,553	9,499	-
Due from other governmental units	241,024	731,068	372,890
Due from other funds	57,500	-	-
Inventories	-	-	144,731
Prepays	11,178	21,110	2,984
<b>TOTAL ASSETS</b>	<b>\$ 1,546,925</b>	<b>\$ 3,748,393</b>	<b>\$ 523,286</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 41,086	\$ 294,431	\$ 266,688
Accrued payroll	10,340	325,412	6,842
Other accrued liabilities	70,288	96,411	1,641
Deferred revenue	336,950	205,910	2,000
Due to other funds	-	25,000	32,500
<b>TOTAL LIABILITIES</b>	<b>458,664</b>	<b>947,164</b>	<b>309,671</b>
<b>FUND BALANCES</b>			
Reserved for			
Inventories and prepaids	11,178	21,110	147,715
Unreserved			
Designated for future projects	280,000	966,000	-
Designated for capital projects	-	-	-
Undesignated, reported in			
General fund	797,083	-	-
Special revenue funds	-	1,814,119	65,900
<b>TOTAL FUND BALANCES</b>	<b>1,088,261</b>	<b>2,801,229</b>	<b>213,615</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,546,925</b>	<b>\$ 3,748,393</b>	<b>\$ 523,286</b>

See accompanying notes to financial statements.



Nonmajor Governmental Funds	Total Governmental Funds
\$ 354,730	\$ 4,496,199
15,402	84,271
-	7,729
2,612	20,664
-	1,344,982
-	57,500
-	144,731
-	35,272
<u>\$ 372,744</u>	<u>\$ 6,191,348</u>

\$ -	\$ 602,205
-	342,594
-	168,340
-	544,860
-	57,500

-0- 1,715,499

-	180,003
-	1,246,000
372,744	372,744
-	797,083
-	1,880,019
<u>372,744</u>	<u>4,475,849</u>
<u>\$ 372,744</u>	<u>\$ 6,191,348</u>

Clinton County Regional Educational Service Agency

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2006

**Total fund balance - governmental funds** \$ 4,475,849

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 8,559,740	
Accumulated depreciation is	<u>(1,435,007)</u>	7,124,733

Long-term liabilities, including bonds payable, are not due and  
payable in the current period and therefore are not reported as liabilities in  
the funds. Long-term liabilities at year-end consist of:

Bonds and loans payable	(3,378,076)	
Accrued interest payable	(83,395)	
Compensated absences	<u>(128,896)</u>	(3,590,367)

**Net assets of governmental activities** \$ 8,010,215

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Special Education	Vocational Education
<b>REVENUES</b>			
Local sources	\$ 435,837	\$ 4,584,664	\$ 1,525,566
State sources	722,961	1,820,503	239,558
Federal sources	156,442	4,747,134	818,238
<b>OTHER FINANCING SOURCES</b>			
Transfers in	149,738	290,870	-
Payments from other districts	771,670	57,793	406,081
Other transactions	75,184	19,780	5,431
<b>TOTAL REVENUES AND OTHER FINANCING SOURCES</b>	<b>2,311,832</b>	<b>11,520,744</b>	<b>2,994,874</b>
<b>EXPENDITURES</b>			
Current			
Instruction	455,152	2,146,859	581,567
Supporting services	1,403,521	7,830,257	249,607
Debt service	-	-	-
Capital outlay	-	-	-
<b>OTHER FINANCING USES</b>			
Transfers out	403,739	432,022	10,000
Payments to other districts	-	967,852	2,196,315
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	<b>2,262,412</b>	<b>11,376,990</b>	<b>3,037,489</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>49,420</b>	<b>143,754</b>	<b>(42,615)</b>
Fund balances, beginning of year	1,038,841	2,657,475	256,230
Fund balances, end of year	<u>\$ 1,088,261</u>	<u>\$ 2,801,229</u>	<u>\$ 213,615</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 14,942	\$ 6,561,009
49,461	2,832,483
-	5,721,814
405,153	845,761
-	1,235,544
16,654	117,049
486,210	17,313,660
-	3,183,578
-	9,483,385
442,114	442,114
76,041	76,041
-	845,761
-	3,164,167
518,155	17,195,046
(31,945)	118,614
404,689	4,357,235
<u>\$ 372,744</u>	<u>\$ 4,475,849</u>

Clinton County Regional Educational Service Agency

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

**Net change in fund balances - total governmental funds** **\$ 118,614**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	53,908	
Depreciation expense		<u>(224,320)</u>	
Excess of depreciation expense over capital outlay			(170,412)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt principal retirement	265,944
---------------------------	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	2,140		
(Increase) in compensated absences		<u>(12,477)</u>	
			<u>(10,337)</u>

**Change in net assets of governmental activities** **\$ 203,809**

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private Purpose Trust Fund
ASSETS	
Cash and cash equivalents	\$ 21,065
Interest receivable	162
	<hr/>
TOTAL ASSETS	21,227
LIABILITIES	
Accounts payable	500
	<hr/>
NET ASSETS	
Held in trust for private purposes	<u>\$ 20,727</u>

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

Fiduciary Fund

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2006

	Private Purpose Trust Fund
ADDITIONS	
Investment earnings	
Interest	\$ 832
DEDUCTIONS	(500)
CHANGE IN NET ASSETS	332
Net assets, beginning of year	20,395
Net assets, end of year	<u>\$ 20,727</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Clinton County Regional Educational Service Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Clinton County Regional Educational Service Agency (primary government). The Agency has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the agency as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Agency and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Agency.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the Agency's individual major funds and nonmajor fund. Separate columns are shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major funds of the Agency are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the Agency to support the educational programs and general operations of the Agency.



NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

- b. Special Education Fund - The Special Education Fund is used to account for money or other resources provided to the Agency to support the special education programs and/or the distribution of funds to other local education agencies for operating special education programs.
- c. Vocational Education Fund - The Vocational Education Fund is used to account for money or other resources provided to the Agency to support the vocational education programs.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Agency before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Agency reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Agency receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All unexpended appropriations lapse at fiscal year end.

The Agency follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by a Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes.
- e. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) Supplementary appropriations were made during the year with the final amendments being approved June 13, 2006.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts, certificates of deposit with an original maturity of 90 days or less, pooled investment funds, and imprest petty cash. Cash equivalents are recorded at market value.

6. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the Agency for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2006, to be paid in July and August 2006. The total amount of \$1,344,982 due from other governmental units consists of \$494,662 and \$850,320 related to State Aid and grant and local programs, respectively.

7. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of expendable supplies held for consumption. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Deferred Revenue

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Equipment and furniture	3 - 20 years
Vehicles	8 years

The Agency has no assets that would be classified as infrastructure assets.

10. Prepays

Prepays such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepays are equally offset by a fund balance reserve in the fund-level financial statements which indicates they do not constitute "available" spendable resources even though they are a component of net current assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Agency has recorded all liabilities associated with compensated absences. Accumulated vested vacation and severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements as a current liability.

13. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****14. Property Taxes**

Property taxes levied by the Agency are collected by various municipalities and periodically remitted to the Agency. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. The Agency property tax revenues are recognized when levied to the extent that they result in current receivables (collected within 60 days of year end). Amounts received subsequent to August 31 are recognized as revenue when collected. The Agency is permitted by the Constitution of the State of Michigan of 1963 to levy up to \$50 per \$1,000 assessed valuation for general governmental services other than the payment of Special Education, Vocational Education and Debt Service Fund expenditures. For the year ended June 30, 2006, the Agency levied the following mills per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund	0.1981
Special Education Fund	2.6250
Vocational Education Fund	0.9646

**15. County Special Education Revenue Allocation**

Beginning with the fiscal year ended June 30, 1997, the Agency allocates to the local school districts within the County excess funds remaining from a County-wide Special Education millage increase approved during that year.

The millage was collected by the Agency and the payments to the local districts were based on the most recent Agency budget at the time of allocation of excess revenues, after all Agency costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at the Agency, of each district compared to the total County wide enrollment. The K-12 enrollment for each district is defined as the blended official count for the State foundation grant.

Beginning with the fiscal year ended June 30, 2004, the Agency allocates to the school districts within the County all funds from a County-wide Vocational Education millage levied in the current year.

The millage was collected by the Agency and the payments to the local districts were based on the average of the local district's percentage of the blended pupil count as it relates to the County as a whole and the local district's percentage of the taxable value as it relates to the County as a whole for the current fiscal year.

**16. Interfund Transactions**

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

**17. Federal Programs**

Federal programs are accounted for in the specific governmental funds to which they relate. The Agency has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

**18. Comparative Data**

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: CASH AND CASH EQUIVALENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the Agency is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School Agency.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School Agency.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the Agency are at federally insured banks and credit unions in the State of Michigan in the name of the School Agency.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school Agency in a bank, savings and loan association, or credit union.

Deposits

As of June 30, 2006, the carrying amounts of the Agency's deposits were \$3,160,655 and the bank balance was \$4,033,940 of which \$300,000 was covered by federal depository insurance. The balance of \$3,733,940 was uninsured and uncollateralized. The Agency had \$700 of imprest cash on hand.

Investments

As of June 30, 2006, the Agency had the following investments:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MLAFP - Cash Management Fund	<u>\$ 1,355,909</u>	<u>\$ 1,355,909</u>	< 12 months average

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investments in the Michigan Liquid Asset Fund were rated AAA by Standard & Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents caption in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 4,496,199</u>	<u>\$ 21,065</u>	<u>\$ 4,517,264</u>

Due to significantly higher cash flow at certain periods during the year, the amount the Agency held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Restated Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 627,860	\$ -	\$ -	\$ 627,860
Capital assets being depreciated				
Buildings and additions	6,666,725	39,338	-	6,706,063
Equipment, furniture, and other assets	1,146,382	14,570	-	1,160,952
Vehicles	<u>64,865</u>	<u>-</u>	<u>-</u>	<u>64,865</u>
Subtotal	7,877,972	53,908	-0-	7,931,880

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE C: CAPITAL ASSETS - CONTINUED**

	Restated Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<b>Governmental activities - continued</b>				
Less accumulated depreciation for:				
Buildings and additions	\$( 831,107 )	\$( 122,682 )	\$ -	\$( 953,789 )
Equipment, furniture, and other assets	( 346,722 )	( 91,751 )	-	( 438,473 )
Vehicles	( 32,858 )	( 9,887 )	-	( 42,745 )
Subtotal	( 1,210,687 )	( 224,320 )	-0-	( 1,435,007 )
Net capital assets being depreciated	6,667,285	( 170,412 )	-0-	6,496,873
Capital assets, net	\$ 7,295,145	\$( 170,412 )	\$ -0-	\$ 7,124,733

Depreciation expense of \$224,320 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the Agency for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due within One Year
1998 Durant Resolution Bonds	\$ 449,977	\$ -	\$ 34,092	\$ 415,885	\$ 162,913
2001 Installment Loan	2,980,000	-	210,000	2,770,000	220,000
2003 Installment Loan	214,043	-	21,852	192,191	22,491
Compensated Absences	116,419	12,477	-	128,896	35,710
	<u>\$ 3,760,439</u>	<u>\$ 12,477</u>	<u>\$ 265,944</u>	<u>\$ 3,506,972</u>	<u>\$ 441,114</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

**Resolution**

\$704,336 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$37,417 to \$162,913 with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.

\$ 415,885

**Installment Loans**

\$3,600,000 Installment Purchase agreement dated October 21, 2001, due in annual installments ranging from \$220,000 to \$345,000 through May 1, 2016, with interest at 5.125 percent, payable semi-annually.

\$ 2,770,000

\$245,000 Installment Purchase agreement dated November 4, 2003, due in semi-annual installments ranging from \$11,135 to \$14,672 through November 1, 2013, with interest at 3.98 percent, payable semi-annually.

192,191

\$ 2,962,191

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE D: LONG-TERM DEBT - CONTINUED**

Compensated Absences - Compensated absences are made up of two (2) components, severance pay and accrued vacation.

Severance Pay - In recognition of services to the Agency, a severance payment is made to eligible employees with at least fifteen (15) years of service according to their respective employment contracts as follows:

<u>Years of Service</u>	<u>Amount</u>
15-20	\$40 per accumulated sick day
21-26	\$45 per accumulated sick day
27+	\$50 per accumulated sick day

The maximum benefit cannot exceed \$5,600.

Under GASB Statement No. 16 requirements, the Agency has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2006, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 51,812	\$ 50,027	\$ 101,839
Payroll taxes	<u>3,964</u>	<u>3,827</u>	<u>7,791</u>
	<u>\$ 55,776</u>	<u>\$ 53,854</u>	<u>\$ 109,630</u>

Accrued Vacation - Certain employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amount of these vested rights, including related payroll taxes, which have been recorded in the district-wide financial statements, amounted to approximately \$19,266 at June 30, 2006.

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 162,913	\$ 70,485	\$ 242,491	\$ 149,399
2008	37,417	12,045	253,395	137,220
2009	39,199	10,263	264,336	124,492
2010	41,063	8,397	280,314	111,214
2011	43,019	6,442	291,332	97,128
2012-2016	<u>92,274</u>	<u>6,641</u>	<u>1,630,323</u>	<u>252,830</u>
	<u>\$ 415,885</u>	<u>\$ 114,273</u>	<u>\$ 2,962,191</u>	<u>\$ 872,283</u>



Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE D: LONG-TERM DEBT - CONTINUED**

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the Agency are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the Agency is under no obligation for payment of that year's debt obligation.

**NOTE E: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2006 are as follows:

Due to General Fund from:	
Special Education Fund	\$ 25,000
Vocational Education Fund	<u>32,500</u>
	<u>\$ 57,500</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE F: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Special Education Fund	\$ 139,738
Vocational Education Fund	<u>10,000</u>
	<u>\$ 149,738</u>
Transfers to Special Education Fund from:	
General Fund	<u>\$ 290,870</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 112,869
Special Education Fund	<u>292,284</u>
	<u>\$ 405,153</u>

**NOTE G: EMPLOYEE RETIREMENT SYSTEM**

All of the Agency's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

The payroll for employees covered by the MPSERS for the year ended June 30, 2006, was \$6,138,291 of which \$4,844,491 was for members who have elected the MIP option; the Agency's total payroll was \$6,414,789.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the Agency was required by the State to contribute 14.87% compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006, the Agency was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2006	\$ 185,026	\$ 981,762	\$ 1,166,788
2005	170,729	868,625	1,039,354
2004	164,511	683,408	847,919

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2006	4.0 %	16.0 %
2005	4.0	14.4
2004	4.0	13.0

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the Agency has set aside for specific purposes.

The following are the fund balance reserves as of June 30, 2006:

General Fund	
Reserved for inventories and prepaids	\$ <u>11,178</u>
Special Education Fund	
Reserved for inventories and prepaids	\$ <u>21,110</u>
Vocational Education Fund	
Reserved for inventories and prepaids	\$ <u>147,715</u>

The following are the fund balance designations as of June 30, 2006:

General Fund	
Designated for future projects	\$ <u>280,000</u>
Special Education Fund	
Designated for future projects	\$ <u>966,000</u>
Nonmajor governmental funds	
Designated for capital projects	\$ <u>372,744</u>

**NOTE I: FLEXIBLE BENEFITS PLAN**

In April 1996 the Agency implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The plan is available to all employees who are eligible to have health coverage under the Agency's health insurance plan and have a benefit election form on file. The plan permits them to waive health insurance coverage from the Agency and receive a cash benefit in lieu of such health insurance. The plan also allows employees to reduce their salary and apply it to dependent care benefits.

The Plan is administered by Clinton County Regional Educational Service Agency.

**NOTE J: RISK MANAGEMENT**

The Agency participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Agency has not been informed of any special assessments being required.

The Agency also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Agency has not been informed of any special assessments being required.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE K: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff an agreed upon amount for past underfunding of special education. Clinton County Regional Educational Service Agency, a nonplaintiff district, was awarded \$1,408,672 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The Agency borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the Agency is under no obligation for the debt payments for that year. The Agency has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

As shown in the Budgetary Comparison Schedules, which are included in the financial statements as Required Supplementary Information, the Agency's budgeted expenditures in the major governmental funds have been adopted and shown at the functional classification level.

During the year ended June 30, 2006, the Agency incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Special Education Fund			
Supporting services			
Pupil transportation	\$ 986,992	\$ 991,575	\$ 4,583
Other financing uses			
Payments to other districts	956,500	967,852	11,352
Vocational Education Fund			
Supporting services			
Pupil	82,051	89,382	7,331

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE M: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustment was made during the year, which was the result of a correction of an accounting error. This adjustment was reported as a change to beginning net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	June 30,		
	<u>2006</u>	<u>2005</u>	
PRIMARY GOVERNMENT			
Governmental activities			
Capital assets, net	\$ -	\$ 100,702	Correct understated
Change in net assets	-	100,702	capital assets
Net assets - beginning	100,702	-	

## REQUIRED SUPPLEMENTARY INFORMATION

## Clinton County Regional Educational Service Agency

## General Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 427,717	\$ 454,335	\$ 435,837	\$ (18,498)
State sources	771,254	750,159	722,961	(27,198)
Federal sources	158,649	242,125	156,442	(85,683)
OTHER FINANCING SOURCES				
Transfers in	101,500	142,500	149,738	7,238
Payments from other districts	922,149	927,985	771,670	(156,315)
Other transactions	75,900	54,845	75,184	20,339
TOTAL REVENUES AND OTHER FINANCING SOURCES	2,457,169	2,571,949	2,311,832	(260,117)
EXPENDITURES				
Current				
Instruction				
Basic programs	33,000	530,150	396,886	133,264
Added needs	-	59,970	58,266	1,704
Total instruction	33,000	590,120	455,152	134,968
Supporting services				
Pupil	21,750	22,164	19,229	2,935
Instructional staff	767,744	822,803	650,090	172,713
General administration	268,705	276,646	268,183	8,463
Business	37,505	45,179	36,951	8,228
Operation and maintenance	24,709	24,727	24,266	461
Central	99,509	99,089	77,178	21,911
Other	923,149	355,131	327,624	27,507
Total supporting services	2,143,071	1,645,739	1,403,521	242,218
OTHER FINANCING USES				
Transfers out	408,684	404,009	403,739	270
TOTAL EXPENDITURES AND OTHER FINANCING USES	2,584,755	2,639,868	2,262,412	377,456
NET CHANGE IN FUND BALANCE	(127,586)	(67,919)	49,420	117,339
Fund balance, beginning of year	1,038,841	1,038,841	1,038,841	-0-
Fund balance, end of year	\$ 911,255	\$ 970,922	\$ 1,088,261	\$ 117,339

## Clinton County Regional Educational Service Agency

## Special Education Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 4,076,129	\$ 4,552,182	\$ 4,584,664	\$ 32,482
State sources	1,541,255	1,799,771	1,820,503	20,732
Federal sources	5,318,071	4,911,593	4,747,134	(164,459)
OTHER FINANCING SOURCES				
Transfers in	295,833	290,870	290,870	-0-
Payments from other districts	6,000	43,000	57,793	14,793
Other transactions	9,000	14,500	19,780	5,280
TOTAL REVENUES AND OTHER FINANCING SOURCES	11,246,288	11,611,916	11,520,744	(91,172)
EXPENDITURES				
Current				
Instruction				
Added needs	2,337,912	2,229,934	2,146,859	83,075
Supporting services				
Pupil	2,899,332	3,004,544	2,939,619	64,925
Instructional staff	3,003,983	2,451,050	2,328,899	122,151
General administration	50,445	85,295	72,978	12,317
School administration	30,828	24,855	23,626	1,229
Business	300,632	299,600	281,214	18,386
Operation and maintenance	468,124	523,013	511,250	11,763
Pupil transportation	994,750	986,992	991,575	(4,583)
Central	560,917	732,001	681,096	50,905
Total supporting services	8,309,011	8,107,350	7,830,257	277,093
Community services	1,000	1,000	-	1,000
OTHER FINANCING USES				
Transfers out	386,113	461,191	432,022	29,169
Payments to other districts	675,500	956,500	967,852	(11,352)
TOTAL EXPENDITURES AND OTHER FINANCING USES	11,709,536	11,755,975	11,376,990	378,985
NET CHANGE IN FUND BALANCE	(463,248)	(144,059)	143,754	287,813
Fund balance, beginning of year	2,657,475	2,657,475	2,657,475	-0-
Fund balance, end of year	\$ 2,194,227	\$ 2,513,416	\$ 2,801,229	\$ 287,813



## Clinton County Regional Educational Service Agency

## Vocational Education Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 1,501,312	\$ 1,523,886	\$ 1,525,566	\$ 1,680
State sources	185,700	230,500	239,558	9,058
Federal sources	818,210	818,238	818,238	-0-
OTHER FINANCING SOURCES				
Payments from other districts	406,081	406,081	406,081	-0-
Other transactions	5,145	5,145	5,431	286
TOTAL REVENUES AND OTHER FINANCING SOURCES	2,916,448	2,983,850	2,994,874	11,024
EXPENDITURES				
Current				
Instruction				
Added needs	581,364	606,482	581,567	24,915
Supporting services				
Pupil	82,051	82,051	89,382	(7,331)
Instructional staff	109,559	110,510	98,459	12,051
General administration	500	500	500	-0-
Business	8,401	1,040	886	154
Operation and maintenance	-	5,000	4,693	307
Central	52,284	56,069	55,687	382
Total supporting services	252,795	255,170	249,607	5,563
OTHER FINANCING USES				
Transfers out	14,000	14,000	10,000	4,000
Payments to other districts	2,197,721	2,201,409	2,196,315	5,094
TOTAL EXPENDITURES AND OTHER FINANCING USES	3,045,880	3,077,061	3,037,489	39,572
NET CHANGE IN FUND BALANCE	(129,432)	(93,211)	(42,615)	50,596
Fund balance, beginning of year	256,230	256,230	256,230	-0-
Fund balance, end of year	\$ 126,798	\$ 163,019	\$ 213,615	\$ 50,596

## OTHER SUPPLEMENTARY INFORMATION

Clinton County Regional Educational Service Agency

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 354,730	\$ 354,730
Accounts receivable	-	15,402	15,402
Interest receivable	-	2,612	2,612
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ 372,744</u>	<u>\$ 372,744</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES	\$ -	\$ -	-0-
FUND BALANCES			
Unreserved			
Designated for capital projects	-	372,744	372,744
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ 372,744</u>	<u>\$ 372,744</u>

Clinton County Regional Educational Service Agency

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Local sources	\$ -	\$ 14,942	\$ 14,942
State sources	49,461	-	49,461
OTHER FINANCING SOURCES			
Transfers in	392,653	12,500	405,153
Other transactions	-	16,654	16,654
TOTAL REVENUES AND OTHER FINANCING SOURCES	442,114	44,096	486,210
EXPENDITURES			
Debt service	442,114	-	442,114
Capital outlay	-	76,041	76,041
TOTAL EXPENDITURES	442,114	76,041	518,155
NET CHANGE IN FUND BALANCES	-0-	(31,945)	(31,945)
Fund balances, beginning of year	-	404,689	404,689
Fund balances, end of year	\$ -0-	\$ 372,744	\$ 372,744

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2006, which collectively comprise the Clinton County Regional Educational Service Agency's basic financial statements and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clinton County Regional Educational Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clinton County Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Agency in a separate letter dated October 4, 2006.

This report is intended solely for the use of the management and Board of Education of Clinton County Regional Educational Service Agency, the pass-through grantors, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 4, 2006

**Clinton County Regional  
Educational Service Agency**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**June 30, 2006**

Clinton County Regional Educational Service Agency

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

Compliance

We have audited the compliance of Clinton County Regional Educational Service Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that is applicable to each of its major Federal programs for the year ended June 30, 2006. Clinton County Regional Educational Service Agency's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Clinton County Regional Educational Service Agency's management. Our responsibility is to express an opinion on Clinton County Regional Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Clinton County Regional Educational Service Agency's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Clinton County Regional Educational Service Agency's compliance with those requirements.

As described in item 2006-1 in the accompanying schedule of findings and questioned costs, Clinton County Regional Educational Service Agency did not comply with requirements regarding subrecipient monitoring that are applicable to its Vocational Education Basic Grants to States program. Compliance with such requirements is necessary, in our opinion, for Clinton County Regional Educational Service Agency to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Clinton County Regional Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Clinton County Regional Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to Federal programs. In planning and performing our audit, we considered Clinton County Regional Educational Service Agency's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Clinton County Regional Educational Service Agency's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2006-1 to be a material weakness.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clinton County Regional Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Clinton County Regional Educational Service Agency, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 4, 2006

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND</u>			
U.S. Department of Education (Direct Program) 2005-06 REAP	84.358	S358A052495	\$ 29,207
U.S. Department of Education Passed through State Department of Education and Central Michigan University Math and Science Partnership	84.366	052410-MSPF2004	187,067
Improving Teacher Quality	84.367B	030290-906	75,804
Improving Teacher Quality	84.367	060290	6,640
Passed through State Department of Education I.E.P., Title V 2005-06	84.298	0602500506	196
Title IIA - Improving Teacher Quality 2005-06 Regional Allocation	84.367	0605200506	456
Corporation for National and Community Service Passed through Michigan Community Service Commission	94.004		
Learn & Serve		MCSC/SBLS/F-109/06	24,500
Learn & Serve		MCSC/SBLS/F-80/05	24,366
			48,866
Passed through Michigan Department of Labor and Economic Growth and Eaton Intermediate School District	94.004		
Learn & Serve		MCSC/ISDLS/F-12/06	27,583
Learn & Serve		MCSC/ISDLS/F-02/04	28,508
			56,091

<u>(Memo Only)</u> <u>Restated</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts/</u> <u>In Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ -	\$ -	\$ 16,579	\$ 16,579	\$ -0-
63,556	53,214	87,865	82,463	47,812
75,804	21,995	21,995	-	-0-
-	-	-	400	400
-	-	196	196	-0-
-	-	456	456	-0-
-	-	8,572	17,562	8,990
<u>16,987</u>	<u>16,987</u>	<u>24,366</u>	<u>7,379</u>	<u>-0-</u>
16,987	16,987	32,938	24,941	8,990
-	-	9,524	17,984	8,460
<u>25,224</u>	<u>5,294</u>	<u>8,578</u>	<u>3,284</u>	<u>-0-</u>
25,224	5,294	18,102	21,268	8,460

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>SPECIAL EDUCATION FUND</u>			
U.S. Department of Health and Human Services			
Passed through State Department of Community Health			
Special Projects of Regional and National Significance	93.110A		
2003-04		20041638	\$ 14,995
2005-06		20060716	16,540
2004-05		20050833	12,500
			<u>44,035</u>
TOTAL GENERAL FUND EXPENDITURES OF FEDERAL AWARDS			448,362
U.S. Department of Education			
Passed through State Department of Education			
Special Education 94-142 <sup>(e)</sup>	84.027		
Flow Through			
2003-04 Regular		0404500304	1,628,151
2004-05 Regular		0504500405	1,851,362
State Initiated			
2005-06 Competitive		060480EOSD	50,000
2005-06 Department		060490TS	60,000
Special Education IDEA			
2004-05 ISD		0504702D2C	30,000
2005-06 ISD		0604702D2	50,000
2005-06 ISD		0604701D2	1,010,000
2004-05 ISD		0504701D2	1,170,000
2005-06 ISD		0604500506	1,956,579
			<u>7,806,092</u>
Special Education 94-142 <sup>(e)</sup>			
Preschool Incentive	84.173		
2003-04 Regular		0404600304	79,231
2005-06 Regular		0604600506	78,342
			<u>157,573</u>

<u>(Memo Only)</u> <u>Restated</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts/</u> <u>In Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 14,995	\$ 934	\$ 934	\$ -0-	\$ -0-
-	-	4,975	7,310	2,335
3,901	3,901	6,730	2,829	-0-
18,896	4,835	12,639	10,139	2,335
200,467	102,325	190,770	156,442	67,997
1,628,148	90,182	90,182	-	-0-
1,831,531	12,531	27,533	19,831	4,829
-	-	49,905	50,000	95
-	-	56,023	60,000	3,977
-	-	12,872	14,054	1,182
-	-	232	274	42
-	-	622,312	671,460	49,148
743,384	(21,616)	405,000	426,616	-0-
-	-	1,694,422	1,929,477	235,055
4,203,063	81,097	2,958,481	3,171,712	294,328
79,230	-	1	1	-0-
-	-	72,678	78,342	5,664
79,230	-0-	72,679	78,343	5,664

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>SPECIAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Education			
Passed through State Department of Education - continued			
Special Education - Grants for Infants and Families with Disabilities <sup>(d)</sup>	84.181		
2004-05 Competitive		051320290CSPD1	\$ 1,286,426
2005-06 Competitive		041320290CSPD1C	35,000
2005-06 Competitive		061320290CSPDI	1,396,493
2003-04 Formula		041340190	122,933
2005-06 Formula		061340190	110,371
2004-05 Formula		051340190	<u>120,723</u>
			3,071,946
Passed through State Department of Education and Ingham Intermediate School District <sup>(e)</sup>			
SELMC	84.027		
2004-05		040580-24S	2,483
U.S. Department of Health and Human Services			
Passed through Michigan Department of Community Health			
Medicaid Title XIX	93.778		
School Based Services (Transportation) <sup>(b)</sup>		2978001	<u>2,087</u>
TOTAL SPECIAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			11,040,181
<u>VOCATIONAL EDUCATION FUND</u>			
U.S. Department of Education			
Passed through State Department of Education			
Vocational Education <sup>(d)</sup>	84.048		
2004-05 Regional Allocation		0635206012-14	794,460
Passed through State Department of Education and Lansing Community College			
Vocational Education	84.243		
2005-06 Tech-Prep Education		02-065	<u>23,778</u>
TOTAL VOCATIONAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			<u>818,238</u>
TOTAL FEDERAL AWARDS			<u>\$ 12,306,781</u>

<u>(Memo Only)</u> <u>Restated</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts/</u> <u>In Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 632,580	\$ (16,420)	\$ 637,426	\$ 653,846	\$ -0-
-	-	35,000	35,000	-0-
-	-	621,428	687,127	65,699
112,933	6,231	6,231	-	-0-
-	-	70,514	88,619	18,105
<u>90,323</u>	<u>(9,977)</u>	<u>20,423</u>	<u>30,400</u>	<u>-0-</u>
835,836	(20,166)	1,391,022	1,494,992	83,804
2,483	2,483	2,483	-	-0-
-	-	2,087	2,087	-0-
5,120,612	63,414	4,426,752	4,747,134	383,796
-	-	473,737	794,460	320,723
-	-	23,778	23,778	-0-
-0-	-0-	497,515	818,238	320,723
<u>\$ 5,321,079</u>	<u>\$ 165,739</u>	<u>\$ 5,115,037</u>	<u>\$ 5,721,814</u>	<u>\$ 772,516</u>
		(c)	(a)	



Clinton County Regional Educational Service Agency

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) - (e) represent explanations that cross reference to amounts and headings on the Schedule of Expenditures of Federal Awards.

- (a) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) The amounts reported in this schedule as cash received are in agreement with the amounts in the Grants Section Auditor's Report, except for the following:

<u>Grant #</u>	<u>Amount per R7120</u>	<u>Amount per SEFA</u>	<u>Difference</u>
0504701D2	\$( 765,000 )	\$ -	\$ 765,000
040470RC1D2	1,170,000	405,000	( 765,000 )

The amounts for 0504701D2 and 040470RC102 are reclassifications of funds to different source/project numbers and not true Federal funds payments during 2005/06.

- (d) Denotes programs tested as "major programs".
- (e) Denotes programs required to be clustered by the United States Department of Education.

**NOTE C: MEDICAID ADMINISTRATIVE OUTREACH**

The following summarizes the financial activity related to Medicaid Administrative Outreach funding that has been deferred in the Agency's financial statements:

Deferred revenue - July 1, 2005	\$ 63,075
Revenue deferred during the year	<u>34,376</u>
Deferred revenue - June 30, 2006	<u>\$ 97,451</u>

The amounts deferred are the result of possible repayments that may be made in the future resulting from the back casting process. The Agency will be evaluating past history related to these funds and a reasonable proration will be distributed to the local districts during the fiscal year ending June 30, 2007.

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
PROVIDED TO SUBRECIPIENTS

Vocational Education Fund

Year Ended June 30, 2006

<u>Program Title/ Subrecipient (School District)</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Years' Expenditures</u>
Vocational Education				
Regional Allocation	84.048			
2005-06				
Eaton Intermediate School District		0635206012-14	\$ 111,939	\$ -
Ingham Intermediate School District		0635206012-14	212,200	-
Lansing School District		0635206012-14	374,270	-
			<u>\$ 698,409</u>	<u>\$ -0-</u>

<u>Balance</u> <u>July 1, 2005</u>			<u>Balance</u> <u>June 30, 2006</u>
<u>Due From/(To)</u> <u>Subrecipient</u>	<u>Cash</u> <u>Transferred</u> <u>to</u> <u>Subrecipient</u>	<u>Subrecipient</u> <u>Expenditures</u>	<u>Due From/(To)</u> <u>Subrecipient</u>
\$ -	\$ 111,939	\$ 111,939	\$ -0-
-	212,200	212,200	-0-
-	374,270	370,939	3,331
<u>\$ -0-</u>	<u>\$ 698,409</u>	<u>\$ 695,078</u>	<u>\$ 3,331</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2006, which collectively comprise the Clinton County Regional Educational Service Agency's basic financial statements and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clinton County Regional Educational Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Agency in a separate letter dated October 4, 2006.

This report is intended solely for the information of the Board of Education and management of Clinton County Regional Educational Service Agency, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 4, 2006

Clinton County Regional Educational Service Agency  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2006

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Reportable condition(s) identified that are not considered to be material weakness(es)?   X   Yes \_\_\_\_\_ None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?   X   Yes \_\_\_\_\_ No

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?   X   Yes \_\_\_\_\_ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.181	Special Education Grants for Infants and Families With Disabilities
84.048	Vocational Education Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2006

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**Section III - Federal Award Findings and Questioned Costs**

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**2006-1 SUBRECIPIENT MONITORING**

Perkins III Passed through the Michigan Department of Education - CFDA 84.048; Grant No. 0635206012-14; Grant period FY 2005-06.

Criteria: Subrecipient monitoring in accordance with OMB Circular A-133.

Condition: During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the Agency did not provide adequate follow-up monitoring at year-end (i.e., getting subrecipient audit reports, etc.).

Questioned costs: None

Context: This finding was noted during inquiry procedures related to testing the major Federal programs.

Recommendation: We recommend the Agency implement formal written procedures related to subrecipient monitoring and then periodically perform the established monitoring procedures. These written procedures should include obtaining subrecipient audit reports and review of same to determine that passed through funds are reported properly and that there are no findings with regard to these funds. If discrepancies or findings are noted the Agency should follow up in a timely manner.

Corrective Action Response: The Board of Education is currently evaluating internal changes to address this situation.

Clinton County Regional Educational Service Agency  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2006

There were no findings disclosed for the past two years.



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**MANAGEMENT LETTER**

To the Board of Education  
Clinton County Regional  
Educational Service Agency  
St. Johns, Michigan

As you know, we have recently completed our audit of the records of Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Agency should review its policies and procedures related to family members accompanying employees on conference travel.

During the course of our audit, we noted two instances where Agency employees traveled to out of state conferences and were accompanied by family members, apparently at the Agency's expense.

The first instance involved an employee whose entire family traveled to Orlando, Florida for a four (4) day conference. Based on supporting documentation submitted by the employee for reimbursement of travel expenditures, lodging was obtained for nine (9) days, for which \$990.23 was charged to an Agency credit card. Subsequently, the employee reimbursed the Agency \$322.22, however the method of calculating the amount reimbursed to the Agency was not documented.

The second instance noted involved an employee who was accompanied by a child family member. The cost of airfare to Tampa, Florida for the employee and the child family member totaled \$689.20, which was paid by the Agency and was not reimbursed.

Based on correspondence provided by Central Michigan University and the Michigan Department of Education, we understand that in this instance, the accommodations made for the child family member's airfare were approved and submitted as a grant expenditure for which the Agency was ultimately reimbursed by the funding source. However, such travel arrangements are not in accordance with the Agency's policies related to travel expenses.

We suggest the Agency review the policies and procedures currently in place related to travel expenses and modify them as needed.

2. The Agency should evaluate deferred revenue balances included on the balance sheet.

During the course of our audit, we noted that there are several deferred revenue accounts in the Agency's general ledger that have been carried without adjustment for several years. These amounts mostly pertain to past programs for which amounts were collected but have not been spent.

We suggest the Agency review these deferred revenues to determine whether the applicable criteria for use have been met and make the necessary adjustments to recognize appropriate revenues or return the funds to the funding source as appropriate.

3. Budgets should be monitored and amended when necessary.

As noted in the annual financial statements, the budgeted expenditures of some activities of the Special Education and Vocational Education funds exceeded the amounts appropriated.

The Michigan Public Act 621 of 1978, as amended, provides that the Agency adopt a formal budget for the General and Special Revenue Funds, and shall not incur expenditures in excess of amounts appropriated.

We suggest the Agency consider making additional budget amendments as they are deemed necessary to remain in compliance with PA 621.

4. The Agency should review its compensation reporting to the retirement system to assure accuracy.

During the course of our testing of payroll transactions, we noted that the Board approved the Agency's purchase of universal retirement service credit in the Michigan Public School Employees Retirement System. Based on our review of other correspondence between the Board and the administration of the Agency, we also noted that the Board intended the purchase of the service credit to be considered compensation and to be included as compensation in the calculation of retirement benefits. However, guidance provided by the Michigan Public School Employees Retirement System clearly states that, "a service credit purchase made by the employer on behalf of the employee is a fringe benefit and is not to be reported to the system as compensation. Therefore, do not remit employer retirement contributions for these payments".

It appears that the Agency has included the purchased service credit as compensation that has been reported to the retirement system. We suggest the Agency contact the retirement system to rectify the prior reporting of compensation to the retirement system and revise its reporting process to assure that service credit purchased on behalf of employees is not included as compensation reported to the retirement system in the future.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements dated October 4, 2006.

This report is intended solely for the information and use of the Board of Education and administration of Clinton County Regional Educational Service Agency, the pass-through grantors, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 4, 2006